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**FISCAL IMPACT STATEMENT**

**LS 7409**

**BILL NUMBER:** SB 420

**NOTE PREPARED:** Feb 20, 2009

**BILL AMENDED:** Feb 19, 2009

**SUBJECT:** Renewable Energy

**FIRST AUTHOR:** Sen. Hershman

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill requires the Indiana Economic Development Corporation (IEDC), in consultation with the Office of Energy and Defense Development, to establish the office of Small Business Energy Advancement. It requires the IEDC to assist small businesses in obtaining state and federal energy tax incentives or other financial assistance.

The bill requires the Utility Regulatory Commission (IURC) to consider in the rate base of a public utility that complies with certain renewable energy standards (RES) any capital expenditures made by the public utility to extend gas or electric service to a customer that produces biofuels. It requires the IURC to provide certain financial incentives for implementing electric line facilities projects to electricity suppliers that comply with a certain RES. It requires electricity suppliers to comply with an RES by specified dates. It provides that an electricity supplier that does not comply with a higher RES is not eligible for certain financial incentives related to renewable energy development.

The bill provides that: (1) low carbon dioxide emitting or noncarbon dioxide emitting energy production or generating facilities; and (2) purchases of energy produced by such facilities; qualify for the financial incentives available for clean coal and energy projects. It provides that an eligible business may recover qualified utility system expenses, which include specified preconstruction costs, associated with a: (1) new energy production or generating facility; or (2) low carbon dioxide emitting or noncarbon dioxide emitting energy production or generating facility, and makes technical changes.

**Effective Date:** (Amended) Upon Passage; July 1, 2009.

**Explanation of State Expenditures:** (Revised) *Office of Small Business Energy Advancement:* This bill requires the IEDC to work with the Office of Energy Development (OED) to establish the Office of Small Business Energy Advancement. The establishment of this office is not expected to increase costs for the IEDC. The bill requires the OED to provide staff support to the Office of Small Business Energy Advancement, and it is estimated that this could be accomplished through existing resources.

The bill also requires the Office of Small Business Energy Advancement to provide free access to its services through a toll free telephone number and an Internet web page. These provisions would likely have a minimal impact on state expenditures. Generally, the cost of a toll-free call to a called entity is based on the amount of usage of a toll-free number, the cost of the trunk lines to the entity, and possibly a monthly flat rate service charge. An Internet web page could be provided on the OED's or the IEDC's website.

(Revised) *IEDC:* In addition to the bill's provisions for the establishment of the Office of Small Business Energy Advancement, the bill also provides that the IEDC, in consultation with the IURC, will develop a strategy to attract renewable energy manufacturing and assembly facilities to Indiana. The current level of resources available to the agency should be sufficient to implement these provisions.

*IURC:* This bill will increase the administrative expenditures of the IURC. The amount of the increase is indeterminable and will depend on administrative decisions made by the IURC in implementing the renewable energy standards in this bill. The bill will also require the IURC to amend rules and procedures related to consideration of public utility rate adjustments for cost recovery.

(Revised) Any increase in expenditures could be offset to the extent that the IURC imposes a monetary penalty on an electricity supplier for noncompliance with the RES established in the bill. The bill provides for a penalty equal to the product of the number of megawatt hours of electricity that the electricity supplier was required to, but failed to, supply, multiplied by \$20.

*State & Local Utility Expenditures:* This bill could increase expenditures by state agencies and local units for utilities to the extent that the provisions allowing for cost recovery would increase utility rates. The overall impact on expenditures is indeterminable.

**Explanation of State Revenues:** (Revised) It is estimated that utility rates could increase under the bill due to the provisions in the bill allowing for reasonable and necessary cost recovery for electric line facilities projects, qualified utility system expenses, compliance with renewable energy standards in the bill, the purchase of REC's or carbon offset equivalents, or compliance with federal renewable energy resource portfolio requirements. To the extent that utility rates are affected by the provisions in this bill, there will be an impact on Sales Tax, Utility Receipts Tax (URT), and Utility Services Use Tax (USUT) collections.

*Taxes:* The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana. Both the URT and USUT are deposited in the state General Fund. Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

**Background Information-** This bill establishes an incentive program to allow an electricity supplier that complies with certain renewable energy standards to recover costs associated with any capital expenditures

made by the electricity supplier. As used in this bill “electricity supplier” means a public utility (as defined in IC 8-1-2-1) that furnishes retail electric service to the public. The terms do not include municipally owned utilities.

In order to qualify for a financial incentive, an electricity supplier must supply electricity that is generated from renewable energy resources to Indiana customers as a percentage of the total electricity supplied by the electricity supplier to Indiana customers during a calendar year. The bill provides that an electricity supplier who elects to comply with *Schedule 1* is eligible for financial incentives:

*Schedule 1 -*

- (1) Not later than the CY ending December 31, 2010, at least 3%.
- (2) Not later than the CY ending December 31, 2015, at least 6%.
- (3) Not later than the CY ending December 31, 2020, at least 10%.
- (4) Not later than the CY ending December 31, 2025, at least 15%.

If the electricity supplier fails to comply with *Schedule 1*, the electricity supplier is no longer eligible for financial incentives and must comply with the schedule set forth in *Schedule 2* beginning in the compliance year in which the electricity supplier failed to comply with the schedule set forth in *Schedule 1*. The IURC would impose a reasonable monetary penalty on the electricity supplier for noncompliance with this provision. However, an electricity supplier is not required to comply with either schedules if the cost of compliance would result in unreasonable increase in rates to its customers. The bill provides that the IURC may refund all or part of the penalty paid by an electricity supplier in a calendar year if the electricity supplier achieves compliance by the end of that calendar year.

*Schedule 2 -*

- (1) Not later than the CY ending December 31, 2010, at least 1.5%.
- (2) Not later than the CY ending December 31, 2015, at least 4%.
- (3) Not later than the CY ending December 31, 2020, at least 7%.
- (4) Not later than the CY ending December 31, 2025, at least 10%.

If an electricity supplier exceeds the applicable percentage in a compliance year, the electricity supplier may carry forward the amount of electricity that exceeds the applicable percentage and is generated from renewable energy resources in an Indiana facility to comply with the requirement in either or both of the two immediately succeeding compliance years.

(Revised) As used in this bill, renewable energy resource means any of the following:

- (1) methane systems that convert waste products including animal, food, and plant waste into electricity;
- (2) methane recovered from landfills;
- (3) wind, solar photovoltaic cells and panels;
- (4) clean coal and energy projects (as defined in IC 8-1-8.8-2), including plant efficiency measures;
- (5) dedicated crops grown for energy production; and energy from waste to energy facilities;
- (6) noncarbon dioxide emitting or low carbon dioxide emitting electricity generating technologies placed in service after June 30, 2009;
- (7) hydropower;
- (8) demand side management or energy efficiency programs that reduce electricity consumption or implement load management or demand response technologies that shift a customer’s electric load from periods of higher demand to periods of lower demand;

(9) combined heat and power systems that use natural gas or renewable energy resources as feedstock and achieve at least 70% overall efficiency.

(Revised) As used in this bill, qualified utility system expenses mean any preconstruction costs associated with the study, analysis, or development of a:

(1) new energy production or generating facility; or

(2) new low carbon dioxide emitting or noncarbon dioxide emitting energy production or generating facility;

including siting, design, licensing, and permitting costs.

**Explanation of Local Expenditures:** See *State & Local Utility Expenditures* section under Explanation of State Expenditures.

**Explanation of Local Revenues:** See *Explanation of State Revenues*.

**State Agencies Affected:** IURC, IEDC; OED; All

**Local Agencies Affected:** All.

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